

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Blue Water Area Transportation Commission	County St. Clair County
Audit Date 9/30/05	Opinion Date 11/30/05	Date Accountant Report Submitted to State: 2/10/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple			
Street Address 1979 Holland Ave	City Port Huron	State MI	ZIP 48060
Accountant Signature <i>Stewart, Beauvais & Whipple</i>		Date <i>2-10-06</i>	

**BLUE WATER AREA
TRANSPORTATION COMMISSION
Port Huron, Michigan**

**ANNUAL FINANCIAL STATEMENTS
with Supplementary Information**

**FOR THE YEARS ENDED
SEPTEMBER 30, 2005 AND 2004**

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

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SEPTEMBER 30, 2005 AND 2004

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Blue Water Area Transportation Commission
Port Huron, Michigan

We have audited the accompanying financial statements of the Blue Water Area Transportation Commission as of September 30, 2005 and 2004, and for the years then ended, as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Blue Water Area Transportation Commission, as of September 30, 2005 and 2004, and cash flows for the years then ended in conformity with accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 30, 2005, on our consideration of the Commission's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 5 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements for the Blue Water Area Transportation Commission. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Stewart, Beauvois & Whipple".

Certified Public Accountants

November 30, 2005

BLUE WATER AREA TRANSPORTATION COMMISSION

Management's Discussion and Analysis

Our discussion and analysis of the Blue Water Area Transportation Commission's financial statements provides an overview of the Commission's financial activities for the fiscal year ended September 30, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenditures, and Changes in Fund Net Assets provide information about the activities of the Commission and present a long-term view of the Commission's finances. Also, the financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, supplementary financial information and supplementary information on federal and state awards.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Commission's overall financial status. These statements report information about the Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenditures, and Changes in Fund Net Assets regardless of when cash is received or paid. The two government-wide statements report the Commission's net assets and how they have changed. "Net Assets" is the difference between the assets and liabilities; this is one way to measure the Commission's financial health or position.
- The third statement is the Statement of Cash Flows which shows the change in cash and cash equivalents presenting all activity of the Commission on a cash basis.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by supplementary information that further explains and supports the information in the financial statements.

Also included in this report is Supplementary Information regarding Federal and State Awards, which is required because the Commission receives in excess of \$500,000 of federal revenue.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Revenues, Expenditures, and Changes in Fund Net Assets report information about the Commission, as a whole, and about its activities in a way that helps answer the question of whether the Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenditures, and Changes in Fund Net Assets regardless of when cash is received or paid.

The two statements, mentioned above, report the Commission's net assets and how they have changed. The reader can think of the Commission's net assets (the difference between assets and liabilities) as one way to measure the Commission's financial health or financial position. Over time, increases or decreases in the Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To access the overall health of the Commission, you need to consider additional factors such as changes in the general economy and changes in the laws related to Federal and State transportation funding.

Fund Financial Statements

The Commission has only one fund, the General Operating fund, in which all of the Commission's activities are accounted. The General Operating Fund is a business-type fund, which accounts for activities on a full accrual basis.

FINANCIAL OVERVIEW

The Commission had net assets of \$9,982,933 at September 30, 2005. This is an increase of \$1,487,390 over fiscal 2004. Of the net assets at September 30, 2005, \$6,420,078 was a result of capital assets owned by the Commission, with the remaining \$3,562,855 unrestricted. The table below summarizes the net assets at September 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Assets		
Current assets	\$ 4,662,396	\$ 4,321,240
Capital assets	<u>6,420,078</u>	<u>5,147,309</u>
Total assets	<u>11,082,474</u>	<u>9,468,549</u>
Liabilities		
Current liabilities	1,031,918	837,760
Long-term liabilities	<u>67,623</u>	<u>135,246</u>
Total liabilities	<u>1,099,341</u>	<u>973,006</u>
Net Assets		
Invested in capital assets - Net	6,420,078	5,147,309
Unrestricted	<u>3,562,855</u>	<u>3,348,234</u>
Total net assets	<u>\$ 9,982,933</u>	<u>\$ 8,495,543</u>

The increase in net assets of \$1,487,390 is mainly a result of the purchase of capital assets, funded by grants of \$2,342,244 less the depreciation of \$1,069,561.

The following table summarizes the changes in net assets for 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Revenue		
Operating Revenue	\$ 3,007,386	\$ 2,839,799
Non-operating Revenue –		
State and Federal Fund	3,827,845	3,488,576
Other	<u>67,127</u>	<u>25,693</u>
	6,902,358	6,354,068
Operating Expenses	<u>7,757,212</u>	<u>7,276,947</u>
Net (Loss) before Capital Grant	(854,854)	(922,879)
Capital Grant	<u>2,342,244</u>	<u>1,034,736</u>
Net Income (Loss)	<u>\$ 1,487,390</u>	<u>\$ 111,857</u>

Of the operating revenues of \$3,007,386 for fiscal 2005, \$2,795,661 or 93% was received from contractual revenue from other municipalities or nonprofit agencies. The other major sources of revenue were \$3,827,845 from federal and state agencies for operations and \$2,342,244 for capital acquisitions.

CAPITAL ASSETS

The Commission has \$6,420,078 invested in capital assets (net of accumulated depreciation) as of September 30, 2005. The investment in capital assets includes, land, buildings, machinery and equipment, office equipment and buses and other vehicles. During the year the Commission purchased approximately \$2,342,330 of which \$1,894,200 was from the purchase of 12 new buses, and \$385,077 for the purchase of land.

The following table summarizes the capital assets at September 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Land	\$ 405,942	\$ 20,865
Land Improvements	25,102	25,102
Buildings	981,911	978,133
Machinery and Equipment	1,612,509	1,587,081
Office Furniture and Equipment	26,093	29,550
Buses and Vehicles	<u>9,922,115</u>	<u>7,997,435</u>
	12,973,672	10,638,166
Accumulated Depreciation	<u>(6,553,594)</u>	<u>(5,490,857)</u>
Capital Assets, Net of Depreciation	<u>\$ 6,420,078</u>	<u>\$5,147,309</u>

LONG-TERM DEBT

The only long-term debt of the Commission was for retrospective insurance adjustments for the insurance pool the Commission is a member of. As of September 30, 2005 the Commission owed \$126,494, which will be repaid over the next two years.

ECONOMIC FACTORS AND NEXT YEARS OPERATIONS

Blue Water Area Transportation Commission has a balanced budget for fiscal year 2006 without having to make cuts in service.

Fuel cost increases will have a negative impact on Blue Water Area Transportation Commission in 2006.

Blue Water Area Transportation Commission has one large capital building project plus bus purchases over the next two years that may reduce the Commission's unrestricted net assets.

In 2004, a four-year operating millage for Blue Water Area Transportation was approved by the City of Port Huron and the Charter Township of Fort Gratiot.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens and other interested parties a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Blue Water Area Transportation Commission, 2021 Cleveland, Port Huron, MI 48060.

BLUE WATER AREA TRANSPORTATION COMMISSION**Port Huron, Michigan****STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 2,987,532	\$ 3,044,861
Accounts receivable	213	378
Due from other governmental units/nonprofit agencies -		
Federal	293,490	-
State	251,692	320,597
Local	416,184	247,717
Inventory	458,315	461,189
Deposit in insurance pool	182,719	177,817
Prepaid expenses	72,251	68,681
Total Current Assets	<u>4,662,396</u>	<u>4,321,240</u>
Capital Assets:		
Land and land improvements	431,044	45,967
Building	981,911	978,133
Machinery and equipment	1,612,509	1,587,081
Office furniture and equipment	26,093	29,550
Transportation equipment and improvements	9,922,115	7,997,435
	<u>12,973,672</u>	<u>10,638,166</u>
Less - accumulated depreciation	(6,553,594)	(5,490,857)
Total Property and Equipment	<u>6,420,078</u>	<u>5,147,309</u>
Total Assets	<u>11,082,474</u>	<u>9,468,549</u>
LIABILITIES:		
Current Liabilities:		
Accounts payable	47,031	30,202
Accrued salaries	38,537	28,370
Other accrued liabilities	50,873	57,359
Insurance payable	58,871	67,623
Due to other agencies	401,239	142,539
Due to other governmental units -		
Federal	84,839	53,416
State	89,728	89,728
Local	-	124,902
Deferred revenue	260,800	243,621
Total Current Liabilities	<u>1,031,918</u>	<u>837,760</u>
Long-term Liabilities (less current portion)		
Insurance payable	67,623	135,246
	<u>1,099,541</u>	<u>973,006</u>
NET ASSETS:		
Invested in capital assets, net	6,420,078	5,147,309
Unrestricted	<u>3,562,855</u>	<u>3,348,234</u>
Total Net Assets	<u>\$ 9,982,933</u>	<u>\$ 8,495,543</u>

The accompanying notes are an integral part of these financial statements.

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Operating Revenues:		
Farebox, Ticket and Bus Passes	\$ 173,304	\$ 158,414
Charter	19,975	19,305
Advertising	3,700	3,000
Contractual fares	375,305	371,208
Tax Revenues/Contractual Services	1,019,274	957,459
Contributions from local agencies	1,401,082	1,317,431
Other	14,746	12,982
	<u>3,007,386</u>	<u>2,839,799</u>
Operating Expenses:		
Administrative	561,131	619,998
Operations	5,725,702	5,237,393
Maintenance	1,285,501	1,238,924
Facilities	184,878	180,632
Total Operating Expenses	<u>7,757,212</u>	<u>7,276,947</u>
Operating Loss	<u>(4,749,826)</u>	<u>(4,437,148)</u>
Non-Operating Revenues:		
Interest Earned	57,527	25,168
Gain on sale of fixed assets	9,600	525
State & Federal Revenues	3,827,845	3,488,576
Total Non-Operating Revenues	<u>3,894,972</u>	<u>3,514,269</u>
Net Loss before Capital Grants	(854,854)	(922,879)
Capital Grants	<u>2,342,244</u>	<u>1,034,736</u>
Net Income	1,487,390	111,857
Net Assets at beginning of year	<u>8,495,543</u>	<u>8,383,686</u>
Net Assets at end of year	<u><u>\$ 9,982,933</u></u>	<u><u>\$ 8,495,543</u></u>

The accompanying notes are an integral part of these financial statements.

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	2005	2004
Cash Flows From Operating Activities:		
Cash receipts from customers	\$ 2,731,361	\$ 2,838,814
Cash payments to suppliers	(3,716,841)	(3,847,442)
Cash payments to employees	(2,773,573)	(2,675,467)
Net Cash Used by Operating Activities	<u>(3,759,053)</u>	<u>(3,684,095)</u>
Cash Flows From Non-Capital Financing Activities:		
Cash received from intergovernmental sources	3,634,683	3,298,044
Net Cash Provided by Non-Capital Financing Activities	<u>3,634,683</u>	<u>3,298,044</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition of property and equipment	(2,342,330)	(1,034,748)
Proceeds from sale of assets	9,600	525
Federal & State capital grants	2,342,244	1,034,736
Net Cash Provided by Capital and Related Financing Activities	<u>9,514</u>	<u>513</u>
Cash Flows From Investing Activities:		
Interest	57,527	25,168
Net Cash Provided by Investing Activities	<u>57,527</u>	<u>25,168</u>
Net Decrease in Cash and Cash Equivalents	(57,329)	(360,370)
Cash and Cash Equivalents at beginning of year	<u>3,044,861</u>	<u>3,405,231</u>
Cash and Cash Equivalents at end of year	<u><u>\$ 2,987,532</u></u>	<u><u>\$ 3,044,861</u></u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:		
Operating loss for the year	\$(4,749,826)	\$(4,437,148)
Adjustments to reconcile operating loss		
to net cash used by operating activities -		
Depreciation	1,069,561	901,135
Changes in assets and liabilities -		
Accounts receivable	165	2,276
Due from other governmental units - local	(168,467)	(32,538)
Inventory	2,874	(44,183)
Prepaid expenses	(8,472)	(134,882)
Accounts payable	16,829	(20,804)
Due to other governmental units - local	(124,902)	15,420
Due to other agencies	258,700	(101,765)
Insurance payable	(76,375)	202,869
Accrued liabilities	3,681	(48,332)
Deferred revenue	17,179	13,857
Net Cash Used by Operating Activities	<u><u>\$(3,759,053)</u></u>	<u><u>\$(3,684,095)</u></u>

The accompanying notes are an integral part of these financial statements.

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005 AND 2004

The accounting methods and procedures adopted by the Blue Water Area Transportation Commission conforms to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to Financial Statements are an integral part of the Commission's financial statements:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

The Blue Water Area Transportation Commission (BWATC) was created as a legal and administrative agency pursuant to the Urban Cooperation Act, PA 1967, Ex. Sess., No. 7. It is a quasi-governmental agency providing public transportation in St. Clair County, Michigan and surrounding areas.

B. District-Wide and Fund Financial Statements -

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Commission. The Blue Water Area Transportation Commission is accounted for in one business-type fund.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation -

The Commission's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the limits of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activity, subject to this same limitation. The Commission has selected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets on Equity -

Cash Equivalents -

Cash equivalents are deposits and short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase. Cash equivalents also consist of investment trusts which are recorded at cost and approximate "fair" value. The Investment Trusts have the general characteristics of demand deposit accounts in that the Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Receivables -

All receivables are shown net of allowance for uncollectible amounts.

Prepaid Items -

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statement.

Inventory -

Inventory consists of parts, tires, oil and lubricants, diesel fuel, and various other supplies which are stated at lower of average of cost or market.

Capital Assets -

Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$5,000, except for assets purchased with federal or state grants which are capitalized regardless of the amount, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Depreciation is computed using the straight-line method, based on the estimated useful service lives of the respective assets. The estimated useful service lives are as follows:

Building	18.5 – 30 years
Machinery and equipment	2 – 10 years
Office furniture and equipment	3 – 6 years
Transportation equipment and improvements	4 – 12 years

Estimates -

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reporting amount of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Vacation Pay -

Vacation is earned based upon length of service with BWATC. It must be used within one fiscal year after it is earned or it is forfeited. Under this criteria, all accrued vacation pay recorded at September 30 must be taken prior to the next fiscal year end or is lost. Therefore, all accrued vacation pay at September 30 is reported as a current liability.

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005 AND 2004

NOTE 2 - DEPOSITS AND INVESTMENTS:

As of September 30, 2005 and 2004, the carrying amount of the deposits and investments is as follows:

	<u>2005</u>	<u>2004</u>
Deposits with Financial Institution	\$ 101,421	\$ 20,010
Investment –		
Money Market/Investment Trusts	<u>2,886,111</u>	<u>3,024,851</u>
	<u>\$ 2,987,532</u>	<u>\$ 3,044,861</u>

It is the policy of the Blue Water Area Transportation Commission to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow needs of the Blue Water Area Transportation Commission and comply with all state statutes governing the investment of public funds. The primary objective, in the order of priority, is safety of principle, diversification, liquidity and return on investment.

Custodial Credit Risk – is the risk that in the event of a bank failure, the Commission's deposits or investments may not be returned. The Commission does not have a deposit policy for custodial credit risk.

Interest Rate Risk – is the risk that the market value of securities in the Commission's portfolio will fall due to changes in market interest increases. The Commission's policy attempts to minimize interest rate risk by seeking a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Credit Risk – is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Commission's investment policy and state law limits the type of investments that can be purchased.

Concentration of credit risk – is the risk of loss attributed to the magnitude of the Commission's investments in a single issuer. The Commission's investment policy requires that investments be diversified by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Deposits -

The Michigan Compiled Law, authorizes the Commission to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005 AND 2004

NOTE 2 - DEPOSITS AND INVESTMENTS - (cont'd):

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of September 30, 2005, the carrying amount and the bank balance is \$101,421 and \$200,476, respectively, of which \$100,000 was covered by FDIC insurance and the remaining \$100,476 was uninsured and uncollateralized. As of September 30, 2004, the carrying amount and bank balance was \$20,010 and \$342,366, respectively, of which \$100,000 was covered by FDIC insurance and the remaining \$242,366 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Commission held as cash and cash equivalents increases significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents was substantially higher at these peak periods than at year end.

Investments -

Act 20 PA 1994 as amended by Act 1997 PA 1999 authorizes the Commission to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.118; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

As of September 30, 2005, the Commission was invested in one external investment pool. The fund invests primarily in a portfolio of short-term U.S. Treasury securities. These investments include repurchase agreements collateralized fully by U.S. Treasury securities. It is rated as AAAM by Standards & Poors and Aaa by Moody's, and has an average maturity of 14.21 days.

The investment trust has been reported in the financial statements as a cash equivalent because it has the general characteristics of demand deposit accounts in that the Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005 AND 2004

NOTE 3 - CAPITAL ASSETS:

Capital asset activity for the year ended September 30, 2005 was as follows:

	Oct. 1, 2004			Sept. 30, 2005
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Capital assets, being depreciated:				
Land	\$ 20,865	\$ 385,077	\$ -	\$ 405,942
Capital assets, being depreciated:				
Buildings	978,133	3,778	-	981,911
Land improvements	25,102	-	-	25,102
Machinery and equipment	1,587,081	26,822	1,394	1,612,509
Office furniture and equipment	29,550	1,973	5,430	26,093
Buses and vehicles	7,997,435	1,924,680	-	9,922,115
Total capital assets being depreciated	<u>10,617,301</u>	<u>1,957,253</u>	<u>6,824</u>	<u>12,567,730</u>
Less accumulated depreciation for:				
Buildings	523,406	65,537	-	588,943
Land improvements	19,481	1,821	-	21,302
Machinery and equipment	759,708	174,591	1,394	932,905
Office furniture and equipment	23,753	2,667	5,430	20,990
Buses and vehicles	4,164,509	824,945	-	4,989,454
Total accumulated depreciation	<u>5,490,857</u>	<u>1,069,561</u>	<u>6,824</u>	<u>6,553,594</u>
Total capital assets being depreciated, net	<u>5,126,444</u>	<u>887,692</u>	<u>-</u>	<u>6,014,136</u>
Total capital assets, net	<u>\$ 5,147,309</u>	<u>\$ 1,272,769</u>	<u>\$ -</u>	<u>\$ 6,420,078</u>

NOTE 4 - INTERGOVERNMENTAL - LOCAL OPERATING REVENUES:

City of Port Huron and the Charter Township of Fort Gratiot - These local units levy taxes to provide revenue for the governmental units' contributions for the operation of the Commission. The municipalities' obligation is limited only to the amount the millage raised by each unit.

Charter Township of Port Huron, Burtchville Township and the City of Marysville - These local units have entered into agreements with the Commission to provide services for their respective municipality. The agreement specifies that each of the units shall reimburse the Commission for the cost of providing the services, less any grants or fees received.

NOTE 5 - DEFERRED COMPENSATION:

The Commission offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

Once a trust, custodial account or annuity contract exists, assets are owned or held by the trust, custodian or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employer creditors nor can they be used by the public employer for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries.

BLUE WATER AREA TRANSPORTATION COMMISSION

Port Huron, Michigan

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2005 AND 2004

NOTE 5 - DEFERRED COMPENSATION - (cont'd):

The Commission has determined that a fiduciary relationship does not exist and as a result the Deferred Compensation Plan is not reported as part of the Blue Water Area Transportation Commission.

NOTE 6 - CONTRACTED TRANSPORTATION SERVICES:

The Blue Water Area Transportation Commission contracts with various municipalities and nonprofit agencies to provide transportation services. Under the agreements, the agencies are to pay for all of said services and are reimbursed for a percent of Eligible Operating Expenses and, if applicable, an additional amount for any Nonurban costs. The total cost of providing these services are included in the Commission's Financial Statement, with the difference between the anticipated amount funded with Federal and State grants recorded as a local agency contribution. As of September 30, 2005 and 2004, the Commission has recorded a liability of \$401,239 and \$142,539 to these agencies.

NOTE 7 - MICHIGAN DEPARTMENT OF TRANSPORTATION:

The Michigan Department of Transportation (MDOT) provides funding to the Commission based on a percentage of eligible expenditures, with the actual percentage determined once MDOT receives all the audit reports. In addition, the Commission receives money from the federal government based on a percentage of non-urban eligible expenses.

The Commission has recorded revenues of \$2,735,831 and \$2,626,179 from MDOT for 2005 and 2004, respectively and \$1,077,016 and \$847,399 from the federal government for 2005 and 2004, respectively.

NOTE 8 - OPERATING LEASE:

The Blue Water Area Transportation Commission had a non-cancelable lease for a parking and storage facility which expired July 14, 2005, and was extended on a monthly basis with the same terms described in the original lease with monthly payments of \$3,039. Rental expense for the years ended September 30, 2005 and 2004 was \$36,468.

NOTE 9 - CONTINGENT LIABILITIES:

As indicated in Note 6, the Commission has contracted with other agencies to provide certain transportation services. The costs of providing these services and reimbursement from MDOT is based on eligible costs incurred and provided by the various agencies. Each agency is subject to an audit by a certified public accounting firm, however the audits have not been completed as of issuance date of the Commission's financial statements. Any adjustment, if any, as a result of these audits could not be determined.

NOTE 10 - LONG-TERM DEBT:

As of September 30, 2005 the Commission owed the Michigan Insurance Transit Pool \$126,494 for retrospective adjustments. The balance will be repaid in annual installments of \$58,871 in fiscal 2006 and \$67,623 in fiscal 2007, with no interest.

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005 AND 2004

NOTE 11 - EMPLOYEE PENSION PLAN:

Plan Description -

As of October 1, 1999 the Blue Water Area Transportation Commission adopted the Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The plan adopted by the Commission requires no member contributions. The Commission is required to contribute at an actuarially determined rate; the rate for 2005 was from 7.56% to 8.06%. The contribution requirements of plan members and the Commission are established and may be amended by the Commission, depending on the MERS contribution program adopted by the Commission.

Annual Pension Costs -

For fiscal 2005 and 2004, the Commission paid annual pension costs of \$113,415 and \$100,837, respectively for MERS, which equaled the Commission's required contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

Trend Information

<u>Fiscal Year</u> <u>Ending Sept. 30,</u>	<u>Annual Pension</u> <u>Costs (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contribution</u>	<u>Net Pension</u> <u>Obligation</u>
2003	\$ 81,451	100 %	\$ -
2004	100,837	100	-
2005	113,415	100	-

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005 AND 2004

NOTE 11 – EMPLOYEE PENSION PLAN - (cont'd):

Schedule of Funding Progress

Valuation Date	Actuarial Value of of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c
12/31/2002	\$ 1,528,560	\$ 1,915,505	\$ 386,945	80 %	\$1,310,232	30 %
12/31/2003	1,725,540	2,170,733	445,193	79	1,376,377	32
12/31/2004	1,916,768	2,454,161	537,393	78	1,351,397	40

NOTE 12 - RISK MANAGEMENT:

General Liability -

The Commission purchases general liability insurance through a commercial insurance carrier with coverages of \$1,000,000 for each occurrence and \$2,000,000 aggregate limits with deductibles of \$1,000, plus an additional umbrella of \$4,000,000.

Buildings and Equipment (other than vehicles) -

Insurance is purchased through a commercial carrier in various amounts with deductibles of \$250 - \$1,000.

Automobile and General Liability -

The Commission is a member of the Michigan Transit Pool (MTP). The MTP is an organization of public authorities and agencies providing public transportation services and is established by an intergovernmental agreement pursuant to the provision of MCL Section 124.1 et seq. The MTP is governed by the MTP Board of Commissioners and in accordance with the bylaws, is comprised of one representation of each member systems.

For 2004, the Pool provides a total coverage of \$4,000,000 per each occurrence for risk associated with the operation of Commission vehicles. The Commission is responsible for all losses falling within its self-insured retention of \$50,000 per occurrence, for liability and \$10,000 for damages, plus their share of pooled losses and administration expenses. The Commission is charged an annual premium to cover the fiscal year cost. The actual transportation costs are allocated to the Commission through retroactive adjustments. The Pool requires members to make a contingency reserve and can also maintain a premium stabilization reserve for potential significant claims and to protect the Pool member from major fluctuation and insolvency. The Commission had approximately \$182,719 and \$177,817 on deposit with the Pool at September 30, 2005 and 2004, respectively.

NOTE 13 – SUBSEQUENT EVENT:

In October 2005, the Board of Commissioners approved awarding phases one, two and three of the contract negotiated for the new bus operations, maintenance and administrative facility in the amount of \$9,642,156.

SUPPLEMENTARY FINANCIAL INFORMATION

**DETAILED SCHEDULE OF OPERATING REVENUES
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

	2005	2004
Farebox, Tickets and Bus Passes	\$ 173,304	\$ 158,414
Charter	19,975	19,305
Advertising	3,700	3,000
Contractual fares	375,305	371,208
Other operating revenue	14,746	12,982
	<u>587,030</u>	<u>564,909</u>
Tax Revenues/Contractual Services -		
City of Port Huron	422,271	393,825
Charter Township of Fort Gratiot	252,709	237,494
Charter Township of Port Huron	161,707	152,447
Burtchville Township	72,333	70,052
City of Marysville	110,254	103,641
	<u>1,019,274</u>	<u>957,459</u>
Other Revenues -		
Contribution from local agencies	1,401,082	1,317,431
Total Operating Revenues	\$ 3,007,386	\$ 2,839,799

**SCHEDULE OF NON-OPERATING REVENUES - STATE AND FEDERAL
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

Tax Revenues -			
SBT inventory tax		\$ 14,998	\$ 14,998
State of Michigan Operating Grants -			
New Bus Operating Assistance (Act 51)	- Current Year	2,578,868	2,674,765
	- Prior	156,963	(48,586)
		<u>2,735,831</u>	<u>2,626,179</u>
Federal Operating Grants -			
U.S. DOT Operating Grant - Section 5307	- Current Year	842,130	653,236
U.S. DOT Operating Grant - Section 5311	- Current Year	234,886	194,163
		<u>1,077,016</u>	<u>847,399</u>
Total Non-Operating Revenues - State and Federal		\$ 3,827,845	\$ 3,488,576

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

SCHEDULE OF OPERATING EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	2005				2004
	Operations	Maintenance	General Admin.	Facilities	Total System
Labor -					
Operators' salaries and wages	\$ 1,136,162	\$ -	\$ -	\$ -	\$ 1,136,162
Other salaries and wages	157,779	496,535	267,324	-	921,638
Fringe benefits -					
Pension	58,486	34,059	20,870	-	113,415
Other	388,889	136,816	80,334	-	606,039
Services -					
Travel and training	-	7,595	12,828	-	20,423
Public information	-	-	30,689	-	30,689
Other services	-	88,043	72,781	12,984	173,808
Purchased transportation	2,612,554	-	-	-	2,612,554
Materials and Supplies Consumed -					
Fuel and lubricants	358,222	-	-	-	358,222
Tires and tubes	23,798	-	-	-	23,798
Vehicle equipment - parts	-	295,053	-	-	295,053
Vehicle equipment - small tools	-	3,513	-	-	3,513
Other materials and supplies	-	21,555	14,980	-	36,535
Utilities	9,995	-	6,199	48,367	64,561
Rent	-	-	-	45,317	45,317
Casualty and Liability Costs -					
Vehicle insurance	136,296	-	-	-	136,296
Facility insurance	-	-	35,310	-	35,310
Miscellaneous Expenses -					
Uniforms	6,050	11,022	-	-	17,072
Building maintenance and repair	-	13,238	-	10,852	24,090
Election services	-	-	-	-	-
Other miscellaneous expenses	12,526	3,481	17,149	-	33,156
Depreciation and amortization	824,945	174,591	2,667	67,358	1,069,561
Total Operating Expenses	<u>\$ 5,725,702</u>	<u>\$ 1,285,501</u>	<u>\$ 561,131</u>	<u>\$ 184,878</u>	<u>\$ 7,757,212</u>
					<u>\$ 7,276,947</u>

BLUE WATER AREA TRANSPORTATION COMMISSION

Port Huron, Michigan

DETAILED SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2005 WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2004

	2005				
	Regular Service	Charter Township of Port Huron	City of Marysville	Agency Urban Expenses	Total Urban Expenses
Expenses:					
Administrative -					
Salaries	\$ 222,360	\$ 19,057	\$ 12,885	\$ -	\$ 254,302
Pension	17,360	1,488	1,006	-	19,854
Other fringes	66,821	5,727	3,872	-	76,420
Accounting and legal	60,539	5,188	3,508	-	69,235
Telephone	5,156	442	299	-	5,897
Supplies	12,460	1,068	722	-	14,250
Travel and training	10,671	915	618	-	12,204
Public information	25,527	2,188	1,479	-	29,194
Insurance	29,370	2,517	1,702	-	33,589
Depreciation	2,219	190	129	-	2,538
Election services	-	-	-	-	-
Other	14,265	1,223	827	-	16,315
Administration Allocation	(227,552)	(19,502)	(13,186)	122,237	(138,003)
Total Administrative Expenses	<u>239,196</u>	<u>20,501</u>	<u>13,861</u>	<u>122,237</u>	<u>395,795</u>
Operational -					
Drivers' wages	945,057	80,996	54,763	-	1,080,816
Drivers' pension	37,184	3,187	2,155	-	42,526
Drivers' other fringes	275,178	23,584	15,946	-	314,708
Dispatchers' wages	131,240	11,248	7,605	-	150,093
Dispatchers' pension	11,465	983	664	-	13,112
Dispatchers' other fringes	48,299	4,139	2,799	-	55,237
Gasoline, diesel fuel and CNG	281,794	24,151	16,329	-	322,274
Oil and lubricants	16,175	1,386	937	-	18,498
Tires and tubes	19,795	1,697	1,147	-	22,639
Dispatch telephone	8,313	712	482	-	9,507
Uniforms	5,032	431	292	-	5,755
Vehicle insurance	113,371	9,716	6,569	-	129,656
Purchased transportation	-	-	-	1,043,464	1,043,464
Depreciation	686,187	58,809	39,762	-	784,758
Other	10,419	893	604	-	11,916
Total Operational Expenses	<u>2,589,509</u>	<u>221,932</u>	<u>150,054</u>	<u>1,043,464</u>	<u>4,004,959</u>

					2004
Burtchville Township	Agency Rural Expenses	Total Rural Expenses	Charter Service	Total Expenses	Total Expenses
\$ 12,109	\$ -	\$ 12,109	\$ 913	\$ 267,324	\$ 260,450
945	-	945	71	20,870	17,092
3,639	-	3,639	275	80,334	83,067
3,297	-	3,297	249	72,781	114,165
281	-	281	21	6,199	5,059
679	-	679	51	14,980	17,380
581	-	581	43	12,828	12,518
1,390	-	1,390	105	30,689	37,928
1,599	-	1,599	122	35,310	35,252
121	-	121	8	2,667	3,812
-	-	-	-	-	18,938
777	-	777	57	17,149	14,337
(12,392)	151,329	138,937	(934)	-	-
13,026	151,329	164,355	981	561,131	619,998
51,464	-	51,464	3,882	1,136,162	1,043,552
2,025	-	2,025	152	44,703	40,812
14,985	-	14,985	1,130	330,823	346,396
7,147	-	7,147	539	157,779	136,066
624	-	624	47	13,783	11,831
2,630	-	2,630	199	58,066	57,203
15,345	-	15,345	1,158	338,777	270,545
881	-	881	66	19,445	14,012
1,078	-	1,078	81	23,798	25,693
453	-	453	35	9,995	11,034
274	-	274	21	6,050	5,101
6,174	-	6,174	466	136,296	230,994
-	1,569,090	1,569,090	-	2,612,554	2,386,653
37,367	-	37,367	2,820	824,945	648,467
567	-	567	43	12,526	9,034
141,014	1,569,090	1,710,104	10,639	5,725,702	5,237,393

BLUE WATER AREA TRANSPORTATION COMMISSION

Port Huron, Michigan

DETAILED SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2005

WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2004

(Cont'd)

	2005				
	Regular Service	Charter Township of Port Huron	City of Marysville	Agency Urban Expenses	Total Urban Expenses
Expenses - (cont'd):					
Maintenance -					
Wages	\$ 413,017	\$ 35,397	\$ 23,933	\$ -	\$ 472,347
Pension	28,330	2,428	1,642	-	32,400
Other fringes	113,803	9,753	6,594	-	130,150
Supplies	4,924	422	285	-	5,631
Parts	245,424	21,034	14,221	-	280,679
Small tools	2,922	250	169	-	3,341
Cleaning supplies	13,006	1,115	754	-	14,875
Travel and training	6,317	541	366	-	7,224
Uniforms	9,168	786	531	-	10,485
Equipment rental	155	13	9	-	177
Repairs and maintenance	11,012	944	638	-	12,594
Purchased services	71,014	6,086	4,115	-	81,215
Bus shelter maintenance	2,220	190	129	-	2,539
Equipment depreciation	145,224	12,446	8,415	-	166,085
Other	2,740	235	159	-	3,134
Total Maintenance Expenses	<u>1,069,276</u>	<u>91,640</u>	<u>61,960</u>	<u>-</u>	<u>1,222,876</u>
Facilities -					
Utilities -					
Heat	18,578	1,592	1,077	-	21,247
Electricity	14,338	1,229	831	-	16,398
Water	7,315	627	424	-	8,366
Rent	37,695	3,231	2,184	-	43,110
Building maintenance and repair	9,026	774	523	-	10,323
Security service	10,800	926	626	-	12,352
Building depreciation	56,028	4,802	3,247	-	64,077
Total Facilities Expenses	<u>153,780</u>	<u>13,181</u>	<u>8,912</u>	<u>-</u>	<u>175,873</u>
Total Expenses	<u>4,051,761</u>	<u>347,254</u>	<u>234,787</u>	<u>1,165,701</u>	<u>5,799,503</u>
Less Ineligible Expenses:					
Insurance - Risk Pool	20,796	1,782	1,205	-	23,783
Depreciation	(868,791)	(74,459)	(50,343)	-	(993,593)
Maintenance Services	(10,950)	(938)	(635)	-	(12,523)
Association Dues	(749)	(64)	(43)	-	(856)
Total Ineligible Expenses	<u>(859,694)</u>	<u>(73,679)</u>	<u>(49,816)</u>	<u>-</u>	<u>(983,189)</u>
Net Eligible Expenses	<u>\$ 3,192,067</u>	<u>\$ 273,575</u>	<u>\$ 184,971</u>	<u>\$ 1,165,701</u>	<u>\$ 4,816,314</u>

					2004
Burtchville Township	Agency Rural Expenses	Total Rural Expenses	Charter Service	Total Expenses	Total Expenses
\$ 22,491	\$ -	\$ 22,491	\$ 1,697	\$ 496,535	\$ 455,546
1,543	-	1,543	116	34,059	31,103
6,197	-	6,197	469	136,816	145,017
268	-	268	20	5,919	2,575
13,365	-	13,365	1,009	295,053	274,307
159	-	159	13	3,513	1,315
708	-	708	53	15,636	13,819
344	-	344	27	7,595	7,486
499	-	499	38	11,022	9,613
8	-	8	2	187	131
600	-	600	44	13,238	20,159
3,867	-	3,867	292	85,374	92,002
121	-	121	9	2,669	3,188
7,908	-	7,908	598	174,591	179,298
149	-	149	11	3,294	3,365
<u>58,227</u>	<u>-</u>	<u>58,227</u>	<u>4,398</u>	<u>1,285,501</u>	<u>1,238,924</u>
1,012	-	1,012	76	22,335	17,546
781	-	781	59	17,238	16,734
398	-	398	30	8,794	8,248
2,053	-	2,053	154	45,317	44,515
492	-	492	37	10,852	11,241
588	-	588	44	12,984	12,790
3,051	-	3,051	230	67,358	69,558
<u>8,375</u>	<u>-</u>	<u>8,375</u>	<u>630</u>	<u>184,878</u>	<u>180,632</u>
<u>220,642</u>	<u>1,720,419</u>	<u>1,941,061</u>	<u>16,648</u>	<u>7,757,212</u>	<u>7,276,947</u>
1,132	-	1,132	85	25,000	25,000
(47,311)	-	(47,311)	(3,569)	(1,044,473)	(875,915)
(596)	-	(596)	(46)	(13,165)	(11,458)
(41)	-	(41)	(4)	(901)	(2,384)
<u>(46,816)</u>	<u>-</u>	<u>(46,816)</u>	<u>(3,534)</u>	<u>(1,033,539)</u>	<u>(864,757)</u>
<u>\$ 173,826</u>	<u>\$ 1,720,419</u>	<u>\$ 1,894,245</u>	<u>\$ 13,114</u>	<u>\$ 6,723,673</u>	<u>\$ 6,412,190</u>

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

SCHEDULE OF MILEAGE DATA (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	<u>Transit Mileage</u>	<u>Charter Service</u>	<u>New Start</u>	<u>Agency Mileage</u>	<u>Total Mileage</u>
Line-Haul					
1st Quarter	94,568	273	-	-	94,841
2nd Quarter	92,974	461	-	-	93,435
3rd Quarter	100,047	652	-	-	100,699
4th Quarter	<u>100,428</u>	<u>910</u>	<u>-</u>	<u>-</u>	<u>101,338</u>
Total Line-Haul	<u><u>388,017</u></u>	<u><u>2,296</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>390,313</u></u>
Demand-Response					
1st Quarter	44,174	-	42,273	281,756	368,203
2nd Quarter	46,742	-	42,063	279,133	367,938
3rd Quarter	50,769	-	43,129	317,798	411,696
4th Quarter	<u>49,128</u>	<u>-</u>	<u>45,731</u>	<u>290,485</u>	<u>385,344</u>
Total Demand-Response	<u><u>190,813</u></u>	<u><u>-</u></u>	<u><u>173,196</u></u>	<u><u>1,169,172</u></u>	<u><u>1,533,181</u></u>
Total Mileage	<u><u>578,830</u></u>	<u><u>2,296</u></u>	<u><u>173,196</u></u>	<u><u>1,169,172</u></u>	<u><u>1,923,494</u></u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

**SUPPLEMENTARY INFORMATION
ON FEDERAL AND STATE AWARDS**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners
Blue Water Area Transportation Commission
Port Huron, Michigan

We have audited the financial statements of the Blue Water Area Transportation Commission as of and for the year ended September 30, 2005, and have issued our report thereon, dated November 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Blue Water Area Transportation Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Blue Water Area Transportation Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management and the Board of Commissioners of the Blue Water Area Transportation Commission, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

November 30, 2005



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners
Blue Water Area Transportation Commission
Port Huron, Michigan

Compliance

We have audited the compliance of the Blue Water Area Transportation Commission with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. The Blue Water Area Transportation Commission's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Blue Water Area Transportation Commission's management. Our responsibility is to express an opinion on the Blue Water Area Transportation Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Blue Water Area Transportation Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Blue Water Area Transportation Commission's compliance with those requirements.

In our opinion, the Blue Water Area Transportation Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

Internal Control Over Compliance

The management of the Blue Water Area Transportation Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Blue Water Area Transportation Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the audit committee, management and the Board of Commissioners of the Blue Water Area Transportation Commission, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

November 30, 2005

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grantor Number	Program or Award Amount	Current Year's Expenditures			Prior Year's Expenditures	Amount Remaining
				Total	State	Federal		
				Expenditures	Expenditures	Expenditures		
U.S. DEPARTMENT OF TRANSPORTATION:								
Direct Assistance -								
Capital Assistance -								
Section 115	20.500	MI-15-X001	\$ 2,000,000	\$ -	\$ -	\$ -	\$ -	\$ 2,000,000
Section 5309		MI-03-0168	490,547	8,886	-	8,886	445,410	36,251
Section 5309		MI-03-0193	2,468,723	308,000	-	308,000	-	2,160,723
Section 5309		MI-03-0224	1,901,805	-	-	-	-	1,901,805
Section 5307	20.507	MI-90-X362	529,496	380,781	-	380,781	137,496	11,219
Section 5307		MI-90-X390	938,000	264,254	-	264,254	75,431	598,315
Section 5307		MI-90-X409	416,000	-	-	-	-	416,000
Section 5307		MI-90-X416	189,200	27,402	-	27,402	15,687	146,111
Section 5307		MI-90-X445	636,000	-	-	-	-	636,000
Section 5307		MI-90-X446	165,600	5,892	-	5,892	3,741	155,967
Section 5307		MI-90-X477	300,000	-	-	-	-	300,000
Section 5307		MI-90-X479	16,000	-	-	-	-	16,000
			10,051,371	995,215	-	995,215	677,765	8,378,391
Passed Through Michigan Department of Transportation -								
Capital Assistance -								
Section 5309	20.500	2000-0450/A3	1,730,659	147,564	-	147,564	143,095	1,440,000
Section 5307	20.507	2000-0792	731,016	731,016	-	731,016	-	-
MICHIGAN DEPARTMENT OF TRANSPORTATION:								
Capital Assistance -								
Section 5307/CMAQ	N/A	2001-0845	132,374	95,195	95,195	-	34,374	2,805
Section 5307/CMAQ	N/A	2002-0020/Z8	159,000	-	-	-	-	159,000
Section 5307/CMAQ	N/A	2002-0020/Z13	75,000	-	-	-	-	75,000
Section 5309	N/A	2000-0801	122,637	2,221	2,221	-	111,353	9,063
Section 5309	N/A	2000-0450/A3	432,665	36,892	36,892	-	35,773	360,000
Section 5309	N/A	2002-0020/Z11	617,181	77,000	77,000	-	-	540,181
Section 5309	N/A	2002-0020/Z12	475,451	-	-	-	-	475,451
Section 5307	N/A	2000-0792	182,754	182,754	182,754	-	-	-
Section 5307	N/A	2002-0020/Z3	234,500	66,062	66,062	-	18,858	149,580
Section 5307	N/A	2002-0020/Z5	47,300	6,851	6,851	-	3,920	36,529
Section 5307	N/A	2002-0020/Z6	104,000	-	-	-	-	104,000
Section 5307	N/A	2002-0020/Z10	41,400	1,474	1,474	-	935	38,991
Total Capital Assistance			15,137,308	2,342,244	468,449	1,873,795	1,026,073	11,768,991

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grantor Number	Program or Award Amount	Current Year's Expenditures			Prior Year's Expenditures	Amount Remaining
				Total Expenditures	State Expenditures	Federal Expenditures		
U.S. DEPARTMENT OF TRANSPORTATION:								
Direct Assistance -								
Operating Assistance - Section 5307	20.507	MI-90-X479	842,130	842,130	-	842,130	-	-
Passed Through Michigan Department of Transportation -								
Operating Assistance - Section 5311	20.509	02-0020/Z9	326,266	234,886	-	234,886	-	91,380
MICHIGAN DEPARTMENT OF TRANSPORTATION:								
Operating Assistance - Act 51	N/A	9/30/05	2,735,831	2,735,831	2,735,831	-	-	-
			3,904,227	3,812,847	2,735,831	1,077,016	-	91,380
Total Federal and State Awards			\$ 19,041,535	\$ 6,155,091	\$ 3,204,280	\$ 2,950,811	\$ 1,026,073	\$ 11,860,371
Memo Only:								
State and Federal Operating Assistance Computation								
Based on Operating Expenditures				\$ 6,710,559				

See Notes to Schedule of Expenditures
of Federal and State Awards

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

**NOTES TO SCHEDULE OF EXPENDITURES OF
FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED
SEPTEMBER 30, 2005**

NOTE 1 - BASIS OF PRESENTATION:

The Blue Water Area Transportation Commission (BWATC) is accounted for in essentially the same manner as state and local governments' Enterprise Funds. The Commission reports on the accrual basis of accounting for financial statement presentation in accordance with accounting principles generally accepted in the United States of America.

The accompanying schedule of expenditures of federal and state awards includes the federal grant activity of Blue Water Area Transportation Commission and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Financial Statements –			
Non-operating revenue – State and Federal	\$ 1,077,016	\$ 2,750,829	\$3,827,845
Capital Grants	<u>1,873,795</u>	<u>468,449</u>	<u>2,342,244</u>
	2,950,811	3,219,278	6,170,089
Reconciling Items –			
SBT Inventory Tax not Reported on the Schedule			
of Expenditures of Federal and State Awards	-	(14,998)	(14,998)
Total Federal and State Awards	<u>\$ 2,950,811</u>	<u>\$ 3,204,280</u>	<u>\$6,155,091</u>

NOTE 3 - SUBRECIPIENTS:

Of the expenditures presented in the Schedule of Expenditures of Federal and State Awards, the Blue Water Area Transportation Commission provided awards to subrecipients as follows:

Operating Assistance – Section 5311	CFDA #20.509	\$ 193,782
Operating Assistance – Act 51	N/A	<u>940,192</u>
		<u>\$ 1,133,974</u>

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section I – Summary Of Auditor’s Results:

Financial Statements

Type of auditor’s report issued: Unqualified

Internal controls over financial reporting:

Material weakness(es) identified? _____ yes x no

Reportable condition(s) identified not considered to be material weaknesses? _____ yes x none reported

Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes x no

Reportable condition(s) identified not considered to be material weaknesses? _____ yes x none reported

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A – 133, Section 510(a)? _____ yes x no

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
CFDA #20.500 CFDA #20.507	Cluster - Federal Transit Capital Improvement Grant Federal Transit Capital and Operating Assistance Formula Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? x yes _____ no

Section II - Financial Statement Findings:

There were no financial statement findings.

Section III - Federal Award Findings and Questioned Costs:

There were no Federal Award Findings and Questioned Costs required to be reported by Section 510(a) of OMB Circular A-133.

Section IV - Prior Year Findings and Questioned Costs:

There were no prior year Findings and Questioned Costs.